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Missouri State Auditor

City of Neosho



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Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Neosho

Financial Condition	The city's financial condition has worsened due to decreased revenues, cost overruns, real estate purchases, golf course subsidization, and a failure to adequately monitor the city's budget and cash balances. At September 30, 2009, the General Fund balance was more than \$1 million negative.
Accounting Records and Budgets	The city does not maintain accurate and complete accounting records and budgets, is not performing timely bank reconciliations, and is not comparing actual receipts and expenses to budgets. The city did not always submit annual financial reports to the State Auditor's office as required by law.
Real Estate Transactions	The city sold property to the Neosho R-V School District for almost \$200,000 less than its appraised value without soliciting any other bids. The city also agreed to exchange services for land without appraising the land or calculating the costs of the services to be provided. The city spent nearly \$400,000 to purchase properties for additional parking, but, because it did not plan for development costs, the properties remain unused.
Civic Center	The city spent \$600,000 more than planned on the renovation of the civic center and did not effectively plan how the financing would be paid. The renovation project included 47 change orders, none of which were separately bid. The city paid an individual \$12,690 to promote events at the civic center without soliciting bids or ensuring contract requirements were met.
Senior Center	Because the city failed to obtain a performance bond on the senior center renovation, it spent \$135,313 to compensate subcontractors when the general contractor defaulted. The city also did not have a written agreement with a general contractor as required by state law.
Procurement Procedures	The city failed to abide by its own procurement policy by not soliciting bids for several purchases. The city also did not periodically solicit proposals for services, such as golf course management and banking. Also, the city may have saved interest costs if it had used a competitive sale rather than a negotiated sale when selling certificates of participation in March 2010.
Disbursements	The city does not reconcile fuel used to fuel purchased or require mileage and fuel use logs, and records show a total fuel shortage of 1,375 gallons over a 3 month period. The Interim City Manager is allowed to use a city vehicle, but the value of commuting miles is not properly reported as compensation. The city did not always enter into written contracts and did not monitor contract compliance, so it overpaid a consultant \$7,500 and did not properly bill the Neosho school district for its resource officer. Also, some contract terms were not adequate to ensure the city's needs would be met. The city spent nearly \$11,000, to purchase items from a local business owned by the spouse of former Councilman/Mayor Werneke without seeking bids.

Payroll Controls and Procedures	Timesheets are not always signed and retained, and some employees are not properly compensated for overtime. The city is not properly and consistently managing the tuition reimbursement program and is not reporting reimbursements as taxable wages. Three retired employees retained city health insurance at the subsidized rate for several years after retiring.
Accounting Controls and Procedures	Accounting duties are not adequately segregated and there is no documented review of the Accounting Manager's duties or the Finance Director's wire transfer duties. Receipts are not always issued, the numerical sequence of receipts and batch numbers are not accounted for properly, and monies received are not deposited timely and intact. Business licenses are not pre-numbered and license and permit fees are not reconciled.
Utility System Controls and Procedures	Utility revenues are used to subsidize General Fund operations, and the city increased utility rates without performing a cost analysis or rate review. The city does not reconcile gallons of water billed to gallons of water pumped, so unauthorized use or leaks could go undetected. The city also does not compare amounts billed for utilities to amounts paid and does not properly handle delinquent accounts. An independent review of any adjustments made to utility accounts is not conducted. Customer utility deposits are not reconciled to the deposit payable balance.
Meeting Minutes	Closed meeting topics were not limited to those specifically identified in the open meeting minutes and allowable under the Sunshine Law.
Capital Asset and Insurance Procedures	The city is not properly managing its capital assets and unnecessarily carried insurance on vehicles it no longer owned.

In the areas audited, the overall performance of this entity was **Poor**.*

American Recovery and Reinvestment Act 2009 (Federal Stimulus)	The city was awarded a \$7,758,719 Clean Water State Revolving Fund Grant for sewer system and wastewater treatment facility improvements, of which \$4,348,772 was received and \$4,789,246 was expended in fiscal year 2010. The city was also awarded a \$58,640 Energy Efficiency and Conservation Block Grant for upgrades of the city wastewater treatment plant, but funds related to this grant were not received or expended in fiscal year 2010.
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*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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City of Neosho

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THOMAS A. SCHWEICH

Missouri State Auditor

To the Honorable Mayor
and
Members of City Council
City of Neosho, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Neosho. We have audited certain operations of the city in fulfillment of our duties. The city engaged Davis, Lynn, and Moots, P.C., Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended September 30, 2010. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm for the year ended September 30, 2009, since the year ended September 30, 2010, audit had not been completed. The scope of our audit included, but was not necessarily limited to, the year ended September 30, 2010. The objectives of our audit were to:

1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in our audit of the city.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Neosho.

An additional report, 2010-102, *Fortieth Judicial Circuit, City of Neosho Municipal Division*, was issued in August 2010.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CGFM, CIA
Audit Manager:	Pamela Allison Tillery, CPA
In-Charge Auditor:	Donald Troy Royer
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City of Neosho
 Management Advisory Report
 State Auditor's Findings

1. Financial Condition

The General Fund is in poor financial condition because of a prolonged decline in sales tax revenues; low cash reserves resulting from real estate purchases (see MAR finding number 3); cost overruns on renovation projects (see MAR finding numbers 4 and 5); and subsidization of the golf course for several years. The city failed to monitor its budget and cash balances, and as a result, it was not aware of the severity of its financial condition. In addition, the city's financial obligations have risen significantly over the last several years. The city failed to plan how it was going to make principal and interest payments on financing obtained for renovation projects and incurred additional costs due to poor project planning and management (see MAR finding number 4 and 5); and improperly borrowed monies from restricted funds, including using water and sewer monies to finance general operations.

The General Fund balance significantly deteriorated from 2007 to 2009. General Fund revenues, expenditures, and fund balances for those years are noted below:

		Year ended September 30,		
		2009	2008	2007
Beginning fund balance	\$	776,755	1,188,181	1,508,363
Revenues		9,138,245	9,525,160	6,048,122
Expenditures		(12,001,042)	(15,710,367)	(6,956,495)
Other financing sources		1,043,386	5,773,781	588,191
Ending fund balance	\$	(1,042,656)	776,755	1,188,181

Information was obtained from independent audit reports.

In addition, city records indicate the General Fund balance was (\$3,412,239) as of September 30, 2010. This balance is likely inaccurate because the beginning fund balance per city records as of October 1, 2009, was \$192,098 less than the audited fund balance. The city has yet to receive its independent audit report for fiscal year 2010. However, the city clearly has a very serious financial condition concern.

Financial information

The City Council does not receive and review accurate financial information which would assist in effectively monitoring cash balances and the financial condition of city funds. Accounting records and annual budgets are not accurate (see MAR finding number 2). Revenues and expenditures of the General Fund appear to have increased significantly in fiscal year 2008; however, this is misleading because the city consolidated several restricted funds into the General Fund.



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Golf course subsidization

The city has historically operated its golf course at a loss, and the Golf Fund had a deficit fund balance at the end of the city's last two audited fiscal years. As a result, the General Fund is required to subsidize its operations and activities. The Golf Fund revenues, expenditures, and operating loss for the last 4 years are noted in the table below:

	2010*	2009**	2008**	2007**
Revenues	\$ 509,815	502,277	481,455	481,212
Expenditures	(579,979)	(584,210)	(641,768)	(638,224)
Operating Loss	\$ (70,164)	(81,933)	(160,313)	(157,012)

* Information was obtained from city records.

** Information was obtained from independent audit reports.

According to the independent audit report, the Golf Fund had a deficit fund balance of (\$62,711) as of September 30, 2009. While city records indicate the Golf Fund had a fund balance of \$881,812 at September 30, 2010, this fund balance is likely not accurate because the beginning fund balance per city records as of October 1, 2009, was \$878,220 more than the audited fund balance at that same date. Additionally, city records indicated approximately \$3.5 million of the city's debt balance is for golf course improvements and equipment. Further, the city contracts with an individual to manage the golf course (see MAR finding number 6), and has not evaluated whether these services could be provided by city employees at a lower cost to the city.

Obligations

The city's independent audit report for the year ended September 30, 2009, indicated the city inappropriately borrowed restricted monies to subsidize the General Fund as noted below, and accurate information is not available for the year ended September 30, 2010:

Fund	Amount
STAR Loan	\$ 739,200
Street	451,976
Hotel/Motel Sales Tax	204,367
Economic Development Sales Tax	157,044
Tax Increment Financing (TIF)	139,027
Senior Center Sales Tax	13,652
Water and Sewer	397,473
Total	\$ 2,102,739

In addition, the General Fund has significant financial obligations related to long-term debt. Financial obligations have risen significantly over the last several years. Independent audit reports show that from fiscal year 2006 to fiscal year 2009, the financial liability of the General Fund has increased approximately 229 percent from \$4.8 million to \$15.8 million. Most of this



City of Neosho
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increase was incurred to refinance past debt and finance renovations of the civic center and senior center through the use of Certificates of Participation (COPs). Further, the city issued additional COPs totaling \$1.3 million in March 2010 (See MAR finding number 4).

Actions taken

At the recommendation of its independent auditor, the city developed a financial plan in July 2010, to address current and future cash flow issues to assist in meeting financial obligations and the repayment of restricted funds. The city also eliminated 36 jobs during the year ended September 30, 2010.

The financial plan includes approving a property tax levy rate increase from \$0 to \$0.4225 on real property which is expected to generate property tax receipts of approximately \$401,000 in fiscal year 2011. The financial plan also includes provisions for repayment of the above restricted monies (excluding the STAR Loan Fund) over the next 5 years. In addition, the Missouri Department of Transportation has required the city to commit to the completion of airport capital projects originally funded by the STAR loan. These projects are now required to be funded by the General Fund and the General Fund is required to repay the STAR loan which was inappropriately used for general city purposes.

The city contracted with an accounting firm in April 2010 to perform General Fund cash flow projections for the next 6 years. The cash flow projections did not include the estimated property tax receipts because the levy was approved after the completion of the projections and did not include the repayment of some restricted monies noted above as these were unknown at the time. We adjusted the cash flow projections for these differences in the table below:

	Year ended September 30,					
	2010	2011	2012	2013	2014	2015
Actual/projected beginning cash balance	\$ 1,892	1,052,140	125,653	(132,222)	(492,288)	(979,954)
Projected receipts	7,761,689	7,299,471	7,377,188	7,445,953	7,515,406	7,585,553
Projected disbursements	(6,813,640)	(6,069,184)	(6,227,222)	(6,414,038)	(6,606,460)	(6,804,653)
Projected COP Proceeds	1,324,285	50,000	0	0	0	0
Projected debt payments and repayment of restricted monies	(1,222,086)	(2,206,774)	(1,407,841)	(1,391,981)	(1,396,612)	(1,400,972)
Projected ending cash balance	\$ 1,052,140	125,653	(132,222)	(492,288)	(979,954)	(1,600,026)

It is essential the City Council continue to address the General Fund financial condition both in the immediate- and long-term future. To improve the financial condition, the Council should review disbursements and reduce spending as much as possible, evaluate controls and management practices to ensure efficient use of city resources, and attempt to maximize all sources



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of revenue. Additionally, the city should perform a cost-benefit analysis to determine whether the continued operation of the golf course is beneficial and cost-effective. Although short-term interfund transfers are sometimes necessary to overcome temporary cash flow problems, interfund transfers are not appropriate as a long-term funding mechanism. Further, to effectively monitor the available cash and financial condition, the city needs complete and accurate financial reports.

Recommendation

The Neosho City Council require accurate and timely financial reports be prepared, closely monitor the city's financial condition, and take the necessary steps to improve the financial condition of the General Fund and Golf Fund. The Council should also develop a debt policy and monitor the overall financial obligations of the city.

Auditee's Response

The Neosho City Council provided the following written response:

The City Council agrees with the recommendation of monitoring the city's financial condition and has taken steps necessary to improve the accuracy in financial reporting used for decision making by the City Council. The City Council's long-term plan is to build a 90-day reserve in the General Fund. The City Council is now requiring cash-flow projections as part of our decision making process.

The City Council concurs with the recommendation that the golf course needs to be self-supporting. While the city recognizes the importance of making the golf course self-supporting, high debt loads from past renovations/expansions and current economic conditions continue to create challenges in the short-run.

The City Council agrees with the recommendation to develop a debt policy and will take steps necessary to do so. Such a policy should work to establish specific debt limits based on the city's projected future cash flows. It should also provide criteria to determine the overall affordability of any new debt before such debt is incurred.

Starting in January 2011, the City Council began receiving the requested financial reports. The City Council will continue to monitor the delivery of timely and accurate financial information and will take all steps necessary to ensure it continues.



2. Accounting Records and Budgets

Improvement is needed in the preparation of accounting records and budgets, and with financial reporting. Accounting records are not accurate, and the City Council cannot adequately monitor the financial condition and cash balances of the city.

2.1 Accounting records

Accounting records are not maintained in a manner to allow the city to properly track and record the financial activity of restricted monies, and as a result, the accounting records maintained by the city are not accurate. State motor vehicle-related receipts; auditorium, economic development, senior center, street, street and bridge, fire, park, and drainage sales taxes; and Police Officer Standards Training (POST) and Law Enforcement Training (LET) fees are not accounted for properly. The city consolidated several of these restricted funds into the General Fund in fiscal year 2008. Until October 2010, these monies were deposited into the General Fund, and while receipts and disbursements were tracked, the balances of the restricted monies were not. Thus, while the city has taken steps to deposit current restricted receipts into separate funds, the balances of restricted funds as of September 30, 2010, have not been determined and transferred to these new restricted funds.

To be of maximum assistance to the Council and to adequately inform the public, the accounting records of the city should accurately report financial activity and account balances. Additionally, Article IV, Section 30, Missouri Constitution, requires motor vehicle-related receipts apportioned by the state of Missouri be disbursed for street related purposes only. Sections 94.577, 94.705, 321.242, and 644.032, RSMo, specify how sales tax monies are to be used and indicate these monies should be deposited into separate funds. Section 488.5336.2, RSMo, requires POST and LET fees be used only for the training of law enforcement officers.

2.2 Bank reconciliations

As of February 2011, bank reconciliations had not been performed for the master fund bank account since September 2009, and our review of the last bank reconciliation performed of the city's investment bank account for August 31, 2010, noted a difference of \$121,500 between the reconciled bank balance and the general ledger balance.

Monthly bank reconciliations are necessary to ensure all accounting records balance, transactions have been properly recorded, and errors or discrepancies are detected and corrected on a timely basis. Complete documentation of the reconciliations should be maintained to support conclusions and corrections, and to facilitate independent reviews.

2.3 Budgets

The 2011 and 2010 fiscal year budgets were not accurate and complete. The budgets did not include the beginning and estimated ending cash balances, and actual receipts and disbursements for the preceding year. Because the city did not include beginning and estimated ending cash balances on the



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budget, the city cannot determine whether it is budgeting a deficit balance. The Council indicated various information was not included in the budgets because it was not accurate.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of city operations and provides a means to effectively monitor actual costs and receipts. Sections 67.010 to 67.040, RSMo, establish specific guidelines as to the format and approval of the annual operating budget. Further, Section 67.010, RSMo, prohibits municipalities from budgeting a deficit balance.

2.4 Monitoring of budgets

The Council has not developed a process to monitor budget to actual receipts and disbursements. A report of budgeted and year-to-date actual receipts and disbursements is not prepared and reviewed by the Council. To help ensure the budget and financial condition are adequately monitored, detailed budget to actual reports should be prepared and reviewed by the Council.

2.5 Financial reporting

The city did not submit an annual financial report to the State Auditor's office for the years ended September 30, 2010 and 2009. In addition, the city did not submit an annual financial report for the year ended September 30, 2008, until October 2009. Section 105.145, RSMo, requires each political subdivision to file an annual report of its financial transactions. In addition, 15 CSR 40-3.030 requires the annual financial report be filed within 4 months after the end of the political subdivision's fiscal year if an unaudited financial report is filed and within 6 months after the end of the political subdivision's fiscal year if an audit report prepared by a certified public accountant is filed.

Recommendations

The Neosho City Council:

- 2.1 Ensure accounting records accurately reflect the financial activity of the city. The Council should also determine the amount of restricted monies in the General Fund, make appropriate transfers, and continue to track restricted monies as required by state law.
- 2.2 Ensure bank reconciliations are performed each month, the reconciled bank balance is compared to the general ledger balance, and any differences are investigated.
- 2.3 Prepare complete and accurate budget documents.
- 2.4 Periodically compare year-to-date receipts and disbursements with budgeted amounts to monitor city finances.



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- 2.5 Submit an annual financial report to the State Auditor's office as required by state law.

Auditee's Response

The Neosho City Council provided the following written responses:

- 2.1 *The City Council agrees with this recommendation. Separate funds were set-up to reflect the fiscal year 2010-2011 annual budget, implemented October 1, 2010.*
- 2.2 *The City Council agrees with the recommendation of bank reconciliations. Currently, the investment account has been reconciled through January 2011 and the master account has been reconciled through September 2010. Going forward, timely reconciliations of all cash accounts will be an expectation of the City Council and policies will be developed to require timely reconciliations.*
- 2.3 *The City Council agrees with the recommendations as provided by the State. The 2011-2012 fiscal year budget will be prepared and reviewed for accuracy.*
- 2.4 *The City Council concurs with the recommendation and is currently provided monthly financial reports with budget-to-actual comparisons.*
- 2.5 *The City Council agrees with the recommendation that the financial report needs to be submitted as required by state law. City staff will be directed to provide the year end 2009 audit. The fiscal year end audit is in progress and will be provided at its completion. The fiscal year end 2011 annual financial report will be provided as required by statute.*

3. Real Estate Transactions

The city failed to ensure it received and exchanged reasonable amounts for city properties. In addition, the city did not properly plan financing to develop properties purchased for parking, and as a result, is unable to utilize the properties for the intended purpose.

3.1 Park recreation center

While the city obtained an appraisal for its park recreation center property, the city did not solicit bids for its sale and sold the property at a price significantly less than the appraised value. In October 2010, the recreation center property was appraised at \$570,300. In December 2010, the city sold the recreation center property to the Neosho R-V School District for \$375,000 (\$195,300 less than the appraised value) without soliciting any other bids. The city sold several properties, including the park recreation center, to raise money to help the city's poor financial condition. Good business practices require the sale of real estate be formally publicized and bids solicited to ensure a reasonable price is received.



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3.2 Exchange of services for property

The city entered into an oral agreement for the exchange of land from a not-for-profit entity (NFP) for subsequent services, and the value of neither the land nor the services was determined. In September 2009, 11 acres of land were given to the city by an NFP to construct a public works building in exchange for engineering, surveying, and road and sewer infrastructure work needed to prepare the adjoining properties still owned by the NFP for commercial development. There was no appraisal to determine a fair value of the land, and the city did not determine the value of the proposed services prior to the exchange. In November 2010, the city calculated its costs for surveying, engineering, and infrastructure as approximately \$84,000. Good business practices require independent appraisals and a determination of the cost of services to be exchanged to ensure a reasonable value received and exchanged. In addition, written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

3.3 Downtown parking

The city spent a total of approximately \$392,000 in fiscal years 2008 and 2009 to purchase properties for parking (including \$290,000 for additional civic center parking), but did not plan financing for the development of the properties, and as a result, the properties remain unused. Given the city's financial condition, it is unclear when the city will be able to demolish the buildings on these properties and complete the parking projects.

Considering the city's financial condition and the large investment of city funds, the City Council should consider and document its plans to pay for the cost of developing these properties. Adequate planning will help ensure the best use of city funds.

Recommendations

The Neosho City Council:

- 3.1 Ensure future sales of real estate are formally publicized and bids are obtained.
- 3.2 Obtain appraisals and determine the cost of services to be exchanged to support future real estate transactions, and enter into written agreements.
- 3.3 Document plans to develop properties purchased.

Auditee's Response

The Neosho City Council provided the following written responses:

- 3.1 *The City Council concurs. Current policy and practices are in line with these recommendations. While the sale of the parks recreation center was below appraisal, it was in accordance with Attorney General Opinion 2001-111. Furthermore, the City Council believes that this sale was the best option given the circumstances of the*



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city's financial situation, the deteriorating state of the recreation center, and the interest of the citizens.

3.2 *The City Council agrees and current practices are in line with recommendations.*

3.3 *The City Council agrees with the recommendation provided and will strive to handle future endeavors more efficiently. Development plans for many of the properties listed were discussed by the City Council at various times in open session, but minutes of those meetings do not specifically list details of such discussions.*

4. Civic Center

The city did not adequately plan how it was going to finance the civic center renovation and did not adequately monitor civic center renovation and operating costs. Significant change orders were approved without additional bidding, and some of the change orders were incurred due to poor planning. The city paid an individual to promote events at the civic center; however, the individual did not fulfill the terms of his contract. In addition, these services were not bid.

4.1 Monitoring and planning

The city did not adequately monitor the operating and renovation costs of the civic center. The city budgeted approximately \$3 million to renovate, \$200,000 to furnish, and \$70,000 to operate the civic center during the year ended September 30, 2008. The renovation project cost approximately \$3.4 million, and the city spent an additional \$500,000 during fiscal year 2008 for the civic center including property for a parking lot (see MAR finding number 3), paving for an existing parking lot, office furniture, asbestos removal, operating expenses, and other minor capital purchases. As a result, the city spent approximately \$600,000 more than it planned.

In addition, the city did not effectively plan how it was going to make principal and interest payments for 20 years on the financing obtained. The city issued \$3.6 million in COPs in 2007 of which \$3 million was for the civic center renovation project and \$600,000 was for the senior center renovation project (see MAR finding number 5); however, the actual costs of the civic center renovation exceeded the COPs proceeds, and monies from the General Fund were used to pay for the remainder of the project costs.

As a result of the overspending, the city issued additional COPs totaling \$1.3 million in March 2010, to repay the General Fund for cost overruns on this renovation project and assist in the continued operations of the city for the upcoming year.

Good business practices require adequate planning prior to approving significant capital improvement projects and monitoring of project costs.



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Management Advisory Report - State Auditor's Findings

Adequate planning for major capital projects is necessary to ensure the projects are financially feasible and supported by the taxpayers, and to help prevent potential problems or misunderstandings during the project.

4.2 Change orders

There were significant change orders to the civic center project, which contributed to project cost overruns. Some of these change orders were incurred due to poor planning. Additionally, the services provided and items purchased through the change orders were not bid. During the civic center renovation, 47 change orders totaling \$334,754 were processed representing 12 percent of the original contract amount. Some of the change orders include:

Reason for Change Order	Cost
Theater lights	\$ 40,217
Refinish balcony treads and risers	25,513
Window treatments	23,624
Increase in amount budgeted for exterior signage	19,162
Additional light fixtures required by the addition of black ceiling tiles	18,503
Relocate concession stand to an office	15,928
Low voltage aisle lights for balcony seats	14,745
Time extension for contractor to complete added change orders	13,690
Stage curtains	11,688

While change orders often occur on construction contracts, they are normally used to make adjustments for problems that are unknown when construction projects are originally bid. Change orders should be kept to a minimum to ensure the maximum amount of construction costs are subjected to competitive bidding and to reduce the amount of administrative time and effort in processing change orders. If the scope of a project changes substantially, consideration should be given to bidding those parts of the project.

4.3 Civic event promoter

The city paid an individual \$12,690 to promote events at the civic center from February 2009 to February 2010; however, the individual did not fulfill the terms of his contract. The contract required the individual to promote one event each quarter, provide the city with a full financial accounting of each event, and establish a budget for each event to be approved by the City Manager.

The individual only promoted two events during the 12 month contract period, did not provide the city with a full financial accounting of the events held, and did not provide the city with a budget for each event. The city paid the individual \$1,000 each month for the 12 month contract period and an additional \$690 for audio and tear down services. In addition, the city did not bid these services.



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The city should monitor contracts to ensure compliance with contract terms. In addition to complying with city ordinances, which require services costing more than \$5,000 to be advertised for bids and for bids to be approved by City Council, competitive bidding helps ensure all parties are given an equal opportunity to participate in city business and the city has received the best and lowest price.

Recommendations

The Neosho City Council:

- 4.1 Ensure adequate planning and monitoring is performed and documented on future projects.
- 4.2 Ensure adequate planning is performed to reduce the number of change orders, and give consideration to bidding when substantial project changes are needed.
- 4.3 Ensure compliance with contract requirements. The City Council should also ensure bids are solicited for all applicable purchases and services in accordance with city ordinances and sufficient documentation is maintained.

Auditee's Response

The Neosho City Council provided the following written responses:

- 4.1 *The City Council agrees with the recommendation of monitoring the planning and performance of future projects. Current practices do provide for better monitoring and oversight. Recent projects have received greater scrutiny prior to approval and project costs have been closely monitored.*
- 4.2 *The City Council agrees with the recommendation. The City Council is currently being provided detailed information from the directors when a change order is presented. All change orders are reviewed and approved by the City Council. Recent change orders have been limited to unknown or unexpected events. Significant changes to current and future projects will be done by bid, not by change order.*
- 4.3 *The City Council agrees with the recommendation and will ensure future bids are solicited in accordance with city ordinances and policy. The city will also work to better monitor compliance of contracts and maintain adequate documentation for any agreed-upon changes that may impact performance.*



5. Senior Center

The city failed to require a performance bond on the senior center renovation project, resulting in additional costs to the city. In addition, the city did not enter into a written agreement with a general contractor for the project.

In July 2007, the city entered into a construction contract for the renovation of the senior center. The total cost of the project was estimated to be approximately \$518,000. The renovation project was completed in April 2008, at a cost of approximately \$634,000.

5.1 Performance bond

The city unnecessarily spent an additional \$135,313 because it did not require the general contractor to furnish a performance bond. In February 2008, the city was notified the general contractor had not paid several subcontractors for work performed totaling \$141,340, and the city had already paid the general contractor for some of these amounts. The City Attorney negotiated payments to these subcontractors down to \$135,313; however, amounts previously paid to the general contractor could not be recovered because there was no performance bond.

Section 107.170, RSMo, requires all public entities to obtain a performance bond for public works contracts with costs estimated to exceed \$25,000. Performance bonds provide assurance for proper completion of such projects and may have relieved the city from any potential liability to subcontractors upon default by the contractor.

5.2 Written contract

The city did not enter into a written agreement with the general contractor hired to complete the senior center renovation project, at a cost of \$11,000. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

Recommendations

The Neosho City Council:

- 5.1 Ensure performance bonds are obtained on construction projects as required by state law.
- 5.2 Enter into written agreements when appropriate.

Auditee's Response

The Neosho City Council provided the following written responses:

- 5.1 *The City Council agrees that performance bonds should be obtained for construction projects as required by state law and current city practices require such bonds.*
- 5.2 *The City Council agrees that all contracts should be in writing. All current contracts are in writing and are presented to the City Council for approval.*



6. Procurement Procedures

6.1 Bidding

Procurement practices need improvement. According to accounting records, disbursements (including payroll) totaled approximately \$16.6 million during the year ended September 30, 2010.

Although the city has a procurement policy which requires city officials to solicit bids for items or services costing more than \$1,500 and advertise and obtain City Council approval for bids for items or services costing more than \$5,000, the city did not solicit bids for numerous purchases made during the year ended September 30, 2010, and through January 2011, including:

Item or Service	Cost
Public works and golf course bulk fuel (two vendors-annual)	\$ 125,080
Bulk fuel (aviation-annual)	96,591
Water testing	43,743
Fuel (local gas station-annual)	35,663
Accounting services (two vendors)	15,043
Leak detection services	10,590

In addition, while the city solicited and received six bids for cleaning services in April 2010, for city hall, the senior center, and the Lampo Community Center, the Council did not clearly document its decision and did not ensure compliance with the bid amounts. The city used the lowest bidder; however, the price charged by the low bidder was \$421 per month higher than the amount quoted in the bid, and as a result, the city paid amounts in excess of the next lowest bid received. The city paid this contractor approximately \$18,400 during the year ended September 30, 2010.

Also, the city has not solicited proposals for golf course management services for several years. The city has contracted with an individual for these services since 2005, and entered into a 3 year contract with him in October 2009. The city paid this individual \$211,297 during the year ended September 30, 2010. The city also paid this individual an additional 12.5 percent (\$24,090) of all golf cart rental fees during the year ended September 30, 2010. The city owns or leases all golf carts and pays all expenses for maintenance, so it is unclear why this individual is paid a percentage of these fees.

Further, while the City Council had adopted and approved a formal purchasing policy, various versions of the policy, which include conflicting purchasing and bidding requirements, are used by city departments.

In addition to complying with city ordinances, competitive bidding helps ensure all parties are given an equal opportunity to participate in city business. Complete documentation should be maintained of all bids and



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proposals received and the reasons why a bid or proposal was selected. Also, one centralized purchasing policy, which clearly defines the levels of purchase authorization or approval requirements for various purchases should be adopted to ensure purchasing procedures are consistent and purchases are properly approved.

6.2 Banking services

The city has not solicited proposals from various banking institutions since 2003 for the deposit of city monies. The Council should solicit formal proposals for its banking services on a periodic basis. Doing so will help ensure the banking services received, as well as the costs of those services, are reasonable and competitive.

6.3 Financing

COPs totaling \$1.3 million were sold in March 2010, through a negotiated instead of a competitive sale. In addition, the City Council did not select the COPs underwriter or legal counsel competitively. The Council used an underwriter and legal counsel it was familiar with and relied upon the advice of the underwriter instead of seeking open bids assuring the most competitive rate of return for taxpayers. The COPs were issued to repay the General Fund for cost overruns on renovation projects and to assist in the continued operations of the city for the upcoming year.

COPs are a method of financing a capital project whereby a financial institution sells interests in the capital project, leases the project to a local government, and repays the certificates with the lease payments. After the certificates have been repaid, the local government typically has the option to purchase at a nominal amount the capital project it has been leasing. COPs are not required to be approved by city voters.

While Missouri law does not require competitive sales of these types of financing instruments or competition in selecting underwriters and legal counsel, competitive sales may result in lower interest costs for the city.

Recommendations

The Neosho City Council:

- 6.1 Ensure bids are solicited for all applicable purchases and services in accordance with city ordinances and sufficient documentation is maintained. The Council should also ensure the adopted and approved purchasing policy is used by all departments.
- 6.2 Solicit proposals for banking services on a periodic basis.
- 6.3 Pursue fair and open competition in any future financing option sales.



Auditee's Response

The Neosho City Council provided the following written responses:

- 6.1 *The City Council agrees that bids should be solicited for all applicable services and purchases. City staff is working towards perfecting that process. The City Council also agrees that the only purchasing policy that should be used city wide is what was approved by ordinance. That policy has been redistributed to all departments to ensure compliance.*
- 6.2 *The City Council agrees with the recommendation of soliciting proposals for banking services. City staff is working on preparing a request to be solicited by the end of the fiscal year. The City Council will ensure our policy for banking services will require those services be bid on a 3-year schedule (or less) to ensure costs are reasonable and competitive.*
- 6.3 *The City Council agrees with the recommendation of pursuing fair and open competition and will ensure compliance in any future financing.*

7. Disbursements

Weaknesses were noted in controls and procedures over disbursements.

7.1 Fuel and usage records

Controls and procedures over fuel use and purchases need improvement. The city purchased \$110,849, \$35,663, \$14,231, and \$1,172 of fuel for the public works and parks departments, police department, golf course, and airport courtesy car, respectively, during the year ended September 30, 2010.

- Significant differences between fuel use and purchases are not investigated. The city maintains use records for bulk tanks used by the public works department and compares use to fuel purchases. City records reported shortages during June, July, and August 2010, totaling 1,015 gallons of unleaded fuel and 360 gallons of diesel fuel.
- Police department fuel use is not reconciled to fuel purchases. Mileage logs are maintained by the police department and could be used in this reconciliation.
- Mileage or fuel use logs are not maintained for bulk fuel tanks used by the golf course, and as a result, fuel use is not reconciled to fuel purchases.
- A mileage log is not maintained for the courtesy car at the airport, and as a result, fuel use is not reconciled to fuel purchases.



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- Mileage logs maintained by the City Manager, Fire Chief, and employees of the police department, park department, and public works department were not always accurate and complete. The purpose of travel was not always documented on mileage logs, and several logs did not include all miles driven. For example, a public works employee log did not include 1,711 miles driven between February 15 and June 1, 2010.

Procedures for reviewing fuel used and reconciling use to fuel purchased and on hand, are necessary to ensure the reasonableness and propriety of fuel use and disbursements. In addition, mileage and fuel use logs are necessary to document the appropriate use of equipment and vehicles and to support fuel charges. Failure to account for fuel purchases could result in theft and misuse of fuel going undetected.

7.2 Interim City Manager commuting mileage

The value of commuting use of the Interim City Manager's city vehicle is not properly reported by the city as compensation. In addition, given the city's poor financial condition and the on-going employment of the Interim City Manager, the city should reconsider providing this benefit.

The original employment contract with the Interim City Manager, approved in April 2010, provided a city owned vehicle for him to take home daily. The Interim City Manager lives in Eucha, Oklahoma (approximately 130 miles round trip from Neosho). After we questioned the Interim City Manager about personal commuting miles, the city entered into a new contract in October 2010, which provided for the Interim City Manager to take a city owned vehicle home daily and personal commuting miles valued at \$300 per month to be reported as a taxable fringe benefit.

The Interim City Manager indicated the city valued the commuting miles (\$300) using the Internal Revenue Service (IRS) lease value method; however, the city valued the vehicle at \$12,000 while the city acquired the vehicle in June 2010 valued at \$15,900. As a result, the city under reported the taxable fringe benefit during the year ended December 31, 2010 by \$533 or (\$63 each month).

In addition, the city charter requires the City Manager to live within the city. Given the city has employed the Interim City Manager since April 2010, and has an employment contract with him which extends to October 2011, the city should re-consider whether this is still an interim position and whether a city vehicle should continue to be provided for personal commuting miles.

Federal regulations require all employers to withhold payroll taxes and include the value of personal automobile (commuting) use in taxable



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7.3 Written contracts and contract compliance

income. The IRS provides several methods to determine automobile commuting values.

The city did not always enter into written contracts defining services provided and benefits received and did not monitor contracts for compliance. As a result, a consultant was overpaid and the Neosho R-V School District was not billed in accordance with contract terms. Also, some contract terms were not adequate to ensure the city's needs would be met.

- The city entered into a verbal agreement with an individual for the rental of city property. The city received \$6,255 in rental payments during the year ended September 30, 2010.
- The city failed to properly monitor payments to a consultant hired to establish a Transportation Development District (TDD), and as a result, overpaid the consultant by \$7,500. The city entered into a written contract with a consultant in December 2007. The contract provided for the city to pay the consultant a total of \$17,500 (\$10,000 at the signing of the agreement and another \$7,500 when the TDD was created). However, the city paid the consultant a total of \$25,000 (\$10,000 in December 2007, \$11,250 in December 2008, and another \$3,750 in July 2009). The TDD was not formally established until February 2011.
- The city provides a resource officer to the Neosho R-V School District, but did not bill the district in accordance with the contract for the 2010-2011 school year. The Council entered into a written contract with the school district on August 18, 2009, to provide a resource officer in exchange for the district to pay the city 75 percent of the costs of the officer with payment to be made by November 30 of each school year. The city did not bill the district for the 2010-2011 school year until we brought this to the city's attention in February 2011.
- The city did not ensure bank reconciliations were prepared in accordance with contract requirements. In February 2010, the city was behind in preparing bank reconciliations and hired an accounting firm to prepare the bank reconciliations. The contract required the accounting firm to reconcile city bank accounts for October 2009 through January 2010, at a cost of approximately \$10,000. The accounting firm only completed bank reconciliations for the investment bank account and did not prepare bank reconciliations for the master bank account for this time period.

In addition, some contract requirements were not adequate to ensure the city's needs would be met. In September 2010, the city contracted with an individual to prepare "as many" of the remaining bank reconciliations for the investment and master fund bank accounts as he



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could for the year ended September 30, 2010, up to the cost of \$5,000. This individual only completed bank reconciliations for the investment bank account through May 2010, and none were completed for the master bank account. This poorly written contract did not provide the city any assurance accounting work would be completed and the city's needs met. Neither of these accounting services were bid (see MAR finding number 6).

Clear and detailed written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing. In addition, the city should monitor contracts to ensure compliance with contract terms, and request reimbursement for any overpayments.

7.4 Potential conflicts of interest

The city purchased items valued at \$6,214 from a local business owned by the spouse of former Councilman/Mayor Werneke during the year ended September 30, 2009. The city purchased an additional \$1,555 of items from this business during the period October 1, 2009, through April 20, 2010, (the end of the former Mayor's term of office). Some of these transactions exceeded \$500, and bids were not solicited by the city for the purchases. In addition, the former Mayor signed 15 checks made payable to his wife's business totaling \$3,224 during the period April 2009 to April 2010. These purchases included notepads given away at a senior center booth during a business exposition, plaques, and flower box signs.

Officers of a city serve in a fiduciary capacity. Personal interests in business matters of the city could create the appearance of conflicts of interest. In addition, Section 105.454(3), RSMo, provides no elected official may participate in any matter directly or indirectly in which he or she attempts to influence any decision of the political subdivision when he or she knows the decision could result in the acceptance of a service, sale, rental, or lease for consideration exceeding \$500 per transaction or \$5,000 annually to his or her spouse unless the transaction(s) is subject to bid and is the lowest bid received.

Recommendations

The Neosho City Council:

- 7.1 Require fuel use logs be maintained for all city-owned vehicles and equipment, and these logs be reviewed for accuracy and reconciled to fuel purchases. Any significant discrepancies should be investigated.
- 7.2 Ensure commuting use in city vehicles is properly reported as taxable income, and reconsider offering this benefit to the Interim City Manager.



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- 7.3 Enter into written agreements defining services provided and benefits received, monitor contracts for compliance and request reimbursement for overpayments, and bill the school district in compliance with the contract.
- 7.4 More closely examine city transactions to identify and avoid apparent and actual conflicts of interest. The Council should ensure strict compliance with the law when conducting city business.

Auditee's Response

The Neosho City Council provided the following written responses:

- 7.1 *The City Council agrees with the recommendation stated. City staff will be directed to implement a more consistent procedure for maintaining, reviewing, and reconciling fuel logs to fuel purchases.*
- 7.2 *The City Council agrees and confirms that city staff has reported the taxable benefit as required by law. It is also the City Council's intention to not offer this benefit in the future.*
- 7.3 *The City Council agrees with the recommendation and currently requires all contracts be in writing and monitored for compliance of all terms. Past practices by former employees resulted in an accounting work backlog. Current staffing allows for such accounting functions to be performed internally and future use of outside accounting assistance is not anticipated.*
- 7.4 *The City Council agrees with the recommendation of closely examining transactions to identify and avoid apparent and actual conflicts of interest. Better controls related to the signing of checks have been put in place to prevent such conflicts from occurring in the future.*

8. Payroll Controls and Procedures

Controls and procedures over payroll disbursements need improvement.

8.1 Timesheets

Timesheets were not signed by some employees, and some original timesheets prepared and signed by park department employees were not retained. Original signed timesheets are necessary to document hours worked, substantiate payroll disbursements, and provide the city with a method to monitor hours worked and leave taken, and are beneficial in demonstrating compliance with Fair Labor Standards Act of 1938 (FLSA) requirements. In addition, timesheets should be signed by the employee and the employee's supervisor to indicate their agreement to the actual time reported each month and to ensure the accuracy of time worked and leave taken.



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8.2 Personnel policies

The city is not compensating some employees for overtime in compliance with its overtime policy and FLSA requirements.

- Several employees have multiple duties, work over the standard 40 hour work week, and are not paid overtime. For example, during the 2-week pay period ended August 15, 2010, a full time wastewater department employee worked 80 hours and also worked 18 hours for the park department. The employee was not compensated at time and a half for the overtime hours. The city personnel policy and the FLSA require any time worked over 40 hours in a week (for non-emergency personnel) to be paid at time and a half.
- Nonworking time (vacation, sick leave, compensatory time taken, and holidays) is included in total hours worked when determining the amount of overtime earned by employees, which is disallowed by the city personnel policy and not required by the FLSA. The city may be paying more overtime to employees than required as a result of using nonworking time in its calculations of overtime earned.

8.3 Tuition reimbursements

Improvement is needed in the handling of tuition reimbursements. The city personnel policy provides for reimbursement of tuition expenses, and the city reimbursed employees \$4,979 and \$16,891 during the years ended September 30, 2010 and 2009, respectively.

- The city did not properly report tuition reimbursements to the IRS as taxable income for two employees. IRS Publication 970, requires employers to report tuition reimbursements in excess of \$5,250 in a calendar year on the employee's W-2 form as taxable wages.
- Tuition was not consistently reimbursed to employees, and the city did not have documentation to explain the inconsistencies. The city reimbursed two administrative employees for all classes taken to obtain their bachelors of science degrees, but reimbursed two police department employees for only law enforcement classes taken to obtain their bachelors of science degrees.
- In February 2010, an employee was reimbursed \$4,979 through the reimbursement program without adequate documentation that program requirements were met. To qualify for reimbursement, an employee is required to file an application for reimbursement 30 days prior to the class starting and obtain supervisory approval. The employee must also provide a report card showing a grade of A or B, and proof of payment. The application for this reimbursement was not signed by the employee or her supervisor (the former City Manager) or submitted 30 days prior to the class starting, a grade was not provided for one of the courses taken, and records provided by the employee appear to indicate the



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employee received a refund from the university for one of the classes she was reimbursed for by the city.

To help ensure employees are treated fairly and equitably, the city should ensure all employees are reimbursed consistently and require documentation that program requirements were met.

8.4 Retiree health insurance benefits

Three retired employees were allowed to retain city health insurance at active city employee rates for 3 to 8 years after their respective retirement dates in violation of city policy. The city personnel policy allows for retired employees to continue health insurance coverage at the group Consolidation Omnibus Budget Reconciliation Act (COBRA) rates for up to 18 months after retirement. In addition, any employee who reaches age 65 during the 18 month period will be discontinued from the COBRA coverage due to eligibility for Medicare. To ensure retired employees are treated fairly and equitably, the city should develop procedures to monitor retiree benefits for compliance with its personnel policy.

Recommendations

The Neosho City Council:

- 8.1 Ensure timesheets are prepared, properly signed and approved, and retained for all employees.
- 8.2 Ensure compliance with the city overtime policy and the FLSA.
- 8.3 Report tuition reimbursements as wages in accordance with IRS regulations. The Council should ensure tuition reimbursements are consistent and supported by adequate documentation. The Council should also seek reimbursement for any unsubstantiated amounts.
- 8.4 Ensure compliance with city policy regarding retiree health insurance benefits.

Auditee's Response

The Neosho City Council provided the following written responses:

- 8.1 *The City Council agrees with the recommendation. City staff are currently providing timesheets signed by the employee and their supervisor and these timesheets will be retained in accordance with the State's records retention policy.*
- 8.2 *The City Council agrees it is important to be in compliance with FLSA for overtime. The city will work to be in compliance by correcting known issues regarding overtime compensation.*
- 8.3 *The City Council agrees with the recommendation. Currently, the city does not offer tuition reimbursements. A further review will be*



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made to determine if any reimbursement should be sought for previously paid tuition reimbursements.

8.4 *The City Council agrees with the importance of adhering to the current personnel policy and will require strict compliance with city policy and federal law related to COBRA benefits.*

9. Accounting Controls and Procedures

Accounting duties are not adequately segregated; procedures for receipting, posting, and depositing monies are not adequate; and improvement is needed in the controls and procedures over business licenses and building permits. As a result of these numerous control weaknesses, there is no assurance all monies are handled and accounted for properly. According to the independent audit report, approximately \$14 million in receipts were processed during the year ended September 30, 2009, and according to city records approximately \$19 million in receipts were processed during the year ended September 30, 2010.

9.1 Segregation of duties

Accounting duties are not adequately segregated.

- The Accounting Manager prepares deposits, takes deposits to the bank, and reconciles some city bank accounts. In addition, there is no documented supervisory review of the duties performed by the Accounting Manager.
- In June 2010, the Finance Director was given authority by the City Manager to make electronic wire transfers between city bank accounts; however, procedures do not provide for documented supervisory reviews of such wire transfers. The Finance Director prepares some city bank reconciliations. While no wire transfers have been made by the Finance Director, these duties should be segregated or an independent review of wire transfers performed.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties is not possible, a timely supervisory review of the work performed is necessary.

9.2 Receipting, posting, and depositing procedures

Receipting, posting, and depositing procedures need improvement. During cash counts conducted in October 2010, and review of the related deposits, we noted the following:

- Manual receipt slips are not issued for some monies received.
- The numerical sequence of manual receipt slips issued by the receptionist at city hall and employees of the collection department and park department are not accounted for properly.



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- Amounts recorded on the manual receipt slips are not reconciled to the city accounting system and deposits. As a result, the city did not detect duplicate receipt slips issued for some monies collected by the park department. A cash count performed on October 5, 2010, in the park department, revealed two receipt slips issued on October 1 and October 4, 2010, for the same monies received.
- Receipt slips are not always issued by the collection department for monies collected at other departments and then transmitted to the collection department.
- The numerical sequence of receipt and batch numbers assigned by the city computerized accounting system are not accounted for properly. Receipt numbers restart with each new batch and multiple batches are used daily. In addition, the computer programmer indicated the accounting system is not capable of tracking voided or deleted receipt numbers.
- City receipts are typically not deposited timely and intact and are not always posted to the computerized accounting system timely. An October 5, 2010, cash count identified monies totaling \$39,280 received from October 1 through October 5 which had not been posted to the computerized accounting system. Some of these monies were not posted until as late as October 20, 2010. Also, \$18,475 of these monies were held and not deposited for more than 8 days. Numerous other instances were noted where other types of city receipts, such as golf fees, building permits, and park department receipts, were not deposited intact and timely. City officials indicated receipts are recorded and deposited only when time permits.
- Rental deposits for use of the Lampo Community Center are held until refunded, and no documentation is retained to support the refunds.

Failure to implement adequate receipting, posting, and depositing procedures increases the risk that loss or misuse of monies received will go undetected.

9.3 Business licenses and building permits

Business licenses are not prenumbered, and there is no procedure to reconcile business licenses and building permits issued to fees collected and amounts deposited. To ensure fees for all licenses and permits are properly collected, recorded, and deposited, the licenses should be prenumbered and the numerical sequence accounted for properly, and the licenses and permits issued should be periodically compared to fees recorded and deposited.



Recommendations

The Neosho City Council:

- 9.1 Segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures.
- 9.2 Require receipt slips be issued in numerical sequence for all monies received and the numerical sequence of receipt slips be accounted for properly. The Council should also ensure manual receipt slips are reconciled to amounts recorded on the computerized accounting system and deposits, deposit all monies intact and in a timely manner, and issue all refunds by check. The Council should account for the numerical sequence of computerized receipt and batch numbers and work with the computer programmer to ensure the accounting system tracks voided or deleted receipt numbers.
- 9.3 Issue prenumbered business licenses and account for the numerical sequence, and reconcile licenses and permits issued to fees recorded and deposited.

Auditee's Response

The Neosho City Council provided the following written responses:

- 9.1 *The City Council agrees that accounting duties need to be segregated and will direct the City Manager to ensure proper procedures are implemented to address the specific concerns listed. As of this date, the Finance Director no longer has the ability to make electronic wire transfers between the city's bank accounts.*
- 9.2 *The City Council agrees with the need to improve receipting procedures and will direct the City Manager to develop and present for approval a more controlled and consistent policy regarding receipts, posting, and deposits. Such a policy is essential to ensure public funds are handled properly. City staff currently provides refunds by check and has developed a system of tracking voided/deleted receipt numbers which includes the review of a supervisor.*
- 9.3 *The City Council agrees and city staff is currently working on a new procedure of issuing pre-numbered business licenses and building permits so that proper accounting and tracking can be ensured.*

10. Utility System Controls and Procedures

Significant weaknesses were indentified in control procedures related to the utility system. As a result of these weaknesses, there is less assurance all utility monies have been accounted for properly and utility charges are set at the appropriate level to cover the cost of providing the related services. Per city accounting records, the utility system operating receipts exceeded \$3.9 million for the year ended September 30, 2010.



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10.1 Subsidization and utility rates

Utility revenues are used to subsidize General Fund operations, and as a result, city customers may be paying too much for utility services. As of September 30, 2009, \$397,473 (see MAR finding number 1) is due to the Water and Sewer Fund from the General Fund, and accurate information is not available for the year ended September 30, 2010.

The city increased water and sewer rates in fiscal years 2008 and 2009, respectively, without performing cost analyses or utility rate reviews. As a result, the city did not determine and cannot demonstrate whether utility rates charged to customers are set at a level consistent with the costs of providing the related services.

Section 67.042, RSMo, provides that fees may be increased if supported by a statement of costs, which shows the increase is necessary to cover costs of providing the service. Utility rates should be set to cover the cost of providing the related services; not at a level which results in excessive fund balances. In addition, utility services should not generate profits to fund (through subsidizations) other services provided by the city. Periodic rate studies are necessary to ensure user charges are set at appropriate levels.

10.2 Water usage

Although the city compares the gallons of water billed to customers to gallons of water pumped each month, significant differences are not investigated. In addition, city water usage is not tracked, and without this information the city cannot properly perform the reconciliation. During the months of January and June 2010, the gallons of water pumped exceeded gallons billed by approximately 54.9 (54 percent) and 44.9 (49 percent) million gallons, respectively. As a result of not investigating these differences, unauthorized use might occur and not be billed and leaks may go undetected.

Tracking city water usage and investigating significant differences between water billed and water pumped is necessary to help detect significant water loss on a timely basis and ensure water usage is properly billed.

10.3 Reconciliations

The city did not perform monthly reconciliations of total amounts billed, payments received, and amounts unpaid for utility services including water, sewer, and trash. Monthly reconciliations are necessary to ensure accounting records balance, transactions are properly recorded, and any errors or discrepancies are detected on a timely basis.

10.4 Delinquent utility reports

While delinquent utility reports are prepared on a monthly basis by the Billing Analyst, the city has not established procedures to monitor or review these delinquent accounts. At March 31, 2011, the city had \$147,020 in delinquent utility accounts.



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To ensure delinquent accounts are handled properly, the delinquent accounts should be monitored and reviewed by someone independent of the utility department.

10.5 Adjustments

While the Finance Director reviews and approves adjustments to the utility system, which are submitted by the Billing Analyst, a subsequent review of the actual changes made to the utility system is not performed. To ensure all adjustments are valid and accounted for properly, a subsequent review of all changes made to the utility system should be performed and documented.

10.6 Utility deposits

Utility deposits posted to customer accounts in the utility system are not reconciled to the deposit payable balance in the general ledger. New customers are required by ordinance to pay a refundable deposit before receiving utility service. At our request, the Billing Analyst printed a list of deposits posted to customer accounts and the Accounting Manager printed the deposit payable balance in the general ledger as of August 31, 2010. The list of utility deposits from the utility system totaled \$51,992 and the deposit payable balance in the city's general ledger totaled \$51,467, resulting in a difference of \$525.

Monthly reconciliations of the list of deposits to the deposit payable balance are necessary to ensure deposits are properly recorded in both customer accounts and the general ledger. Any discrepancies should be promptly investigated and resolved.

Recommendations

The Neosho City Council:

- 10.1 Discontinue using utility monies to fund other city operations. In addition, the Council should review utility rates periodically to ensure receipts are sufficient to cover all costs of providing these services, but not set at a level which results in excessive fund balances. Such reviews should be documented.
- 10.2 Investigate significant differences between gallons of water pumped to gallons billed and track city usage on a monthly basis.
- 10.3 Ensure monthly reconciliations of amounts billed to amounts collected and delinquent accounts are performed. In addition, the Council should ensure adequate documentation to support reconciliations is retained.
- 10.4 Ensure someone independent of the utility department monitors and reviews delinquent accounts.
- 10.5 Ensure approved adjustments are compared to actual changes made to the utility system.



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- 10.6 Ensure a complete list of utility deposits is reconciled monthly to the deposit payable balance in the general ledger. Any discrepancies should be investigated and resolved.

Auditee's Response

The Neosho City Council provided the following written responses:

- 10.1 *The City Council agrees utility monies should not be used to fund other city operations. Those practices are no longer viewed as acceptable and such subsidization is no longer occurring. The City Council concurs that utility rates should be evaluated periodically to ensure there is an accurate and adequate rate structure in place for covering all necessary utility costs. Periodic rate studies will be done as required by law.*
- 10.2 *The City Council is aware of ongoing water loss issues. Recently approved water system improvements will help with reducing water loss. Other contingencies will be evaluated and pursued to bring the city's loss ratios in line with acceptable limits.*
- 10.3 *The City Council agrees that monthly reconciliations should be performed and reviewed pertaining to utility amounts billed, collected, and delinquent and will endeavor to improve its process. The City Council will direct the City Manager to develop and present for approval a more controlled and consistent policy regarding such reconciliations.*
- 10.4 *The City Council agrees that a review of delinquent accounts should be performed independent of the billing department. The City Council will direct the City Manager to develop and present for approval a formal policy to monitor delinquent utility accounts.*
- 10.5 *The City Council agrees the need to review adjustments after entry into the utility system and will encourage city staff to review procedures to improve that process.*
- 10.6 *The City Council agrees with this recommendation and will work to ensure monthly reconciliation of bank accounts, include the utility deposit account.*

11. Meeting Minutes

The city did not ensure compliance with the Sunshine Law for closed session meetings.

- Meeting minutes were not sufficient to demonstrate how some issues discussed in closed meetings were allowable under the Sunshine Law. These issues included discussing the attentiveness of city staff to customers and city residents, the financial operations of the civic center,



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the condition of the civic center when shown to potential renters, and a salary increase for the Interim City Manager.

- Open meeting minutes indicated meetings were closed by the City Council for a specific reason; however, closed meeting minutes indicated other topics, that were not specifically identified in the open meeting minutes, were discussed.

To ensure compliance with state law, the City Council should restrict discussion in closed sessions to the specific topics listed in the Sunshine Law, Chapter 610, RSMo; document the specific reasons for going into closed session; and adequately document discussions held in closed meetings.

Recommendation

The Neosho City Council ensure only allowable topics are discussed in closed meetings and specific reasons for closing a meeting are documented. Closed meeting discussions should be limited to the topics announced in open session.

Auditee's Response

The Neosho City Council provided the following written responses:

The City Council agrees with the recommendation. Compliance with the requirements of the Missouri Sunshine Law is a top concern of this City Council, and we strive to limit conversations to the specific reason(s) documented for closing any meeting.

12. Capital Asset and Insurance Procedures

Capital asset records are not complete and have not been updated since 2008. In addition, the city disposed of two vehicles in June 2008, and another vehicle in January 2009; however, these vehicles were still carried on the city insurance policy as of January 14, 2010. Also, property is not tagged for specific identification, and an annual physical inventory is not performed. The audited financial statements for the year ended September 30, 2009, valued city property at approximately \$26.4 million.

Adequate capital asset records and procedures are necessary to secure better internal controls and safeguard city assets that are susceptible to loss, theft, or misuse; and to provide a basis for determining proper insurance coverage. In addition, given the city's financial condition, the city should better monitor its insurance coverage to ensure unnecessary costs are not incurred.

Recommendation

The Neosho City Council ensure property records include all pertinent information for each asset such as tag number, description, cost, acquisition date, location, and subsequent disposition, and are compared to the city's insurance coverage. The Council should also properly tag, number, or otherwise identify all applicable city property and conduct an annual inventory.



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Auditee's Response

The Neosho City Council provided the following written response:

The City Council agrees with this recommendation and recognizes the value of keeping the capital asset list updated. The City Council will direct the City Manager to review the procedures in place for tracking city assets and ensure all recommendations are addressed.

City of Neosho

Organization and Statistical Information

The City of Neosho is located in Newton County. The city was incorporated in 1878 and is currently a home rule-charter class city. The city employed 106 full-time employees and 30 part-time employees on September 30, 2010.

City operations include fire, law enforcement, utilities (water, sewer, wastewater, and trash), street maintenance, senior center, airport, golf course, and park services.

Mayor and City Council

The city government consists of a five-member council. The members are elected for 3-year terms. The mayor and mayor pro tem are elected by the council for a 1-year term. The mayor presides over the council, and may vote on all matters. The mayor and city council at September 30, 2010, are identified below. The mayor and city council members are paid \$10 for each meeting attended with a maximum of \$25 per month. The compensation of these officials is established by ordinance.

Richard Davidson, Mayor
Tom Workman, Mayor Pro Tem
Matt Persinger, Councilman
Heather Bowers, Councilwoman
Chris Wright, Councilman

American Recovery and Reinvestment Act of 2009 (Federal Stimulus)

According to city personnel, the city was awarded the following American Recovery and Reinvestment Act of 2009 funding during the year ended September 30, 2010.

A \$7,758,719 Clean Water State Revolving Fund Grant was awarded by the U.S. Environmental Protection Agency for sewer system and wastewater treatment facility improvements. During the year ended September 30, 2010, \$4,789,246 was expended and \$4,348,772 was received by the city related to this grant.

A \$58,640 Energy Efficiency and Conservation Block Grant was awarded by the U.S. Department of Energy for upgrades of the city wastewater treatment plant. During the year ended September 30, 2010, no funds were expended or received by the city related to this grant.